New Schools Fund
dba NewSchools Venture Fund

Consolidated Financial Statements

December 31, 2014
(With Summarized Comparative Totals for 2013)

armanino

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
New Schools Fund
dba NewSchools Venture Fund
Oakland, California

We have audited the accompanying consolidated financial statements of New Schools Fund dba NewSchools Venture Fund ("NewSchools" or "the Organization"), and subsidiary, which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statement of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Schools Fund dba NewSchools Venture Fund as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of New Schools Fund dba NewSchools Venture Fund as of December 31, 2013, were audited by other auditors whose report dated June 26, 2014, expressed an unmodified opinion on those statements.

Armanino LLP

Armanino LLP
San Ramon, California

July 22, 2015

NEW SCHOOLS FUND DBA NEWSCHOOLS VENTURE FUND
Consolidated Statement of Financial Position
December 31, 2014
(With Comparative Totals for 2013)

ASSETS

	2014	2013
Current assets		
Cash and cash equivalents	$ 5,703,107	$ 6,646,882
Assets of support organization	435,184	434,948
Receivables		
Contributions receivable	7,100,299	6,083,594
Other current assets	60,012	41,410
Investments	14,135,171	20,957,017
Total current assets	27,433,773	34,163,851
Property and equipment, net	136,519	125,471
Contributions receivable, noncurrent portion, net	2,142,443	3,163,355
Mission related investments	12,337,588	11,440,911
Other assets	56,837	139,440
Total assets	$ 42,107,160	$ 49,033,028

LIABILITIES AND NET ASSETS

	2014	2013
Liabilities		
Current liabilities		
Accounts payable	$ 476,591	$ 599,435
Grants payable	2,937,195	1,782,000
Accrued compensation	690,332	751,570
Total current liabilities	4,104,118	3,133,005
Deferred rent	49,760	-
Total liabilities	4,153,878	3,133,005
Net assets		
Unrestricted	25,408,855	26,539,621
Temporarily restricted	12,544,427	19,360,402
Total net assets	37,953,282	45,900,023
Total liabilities and net assets	$ 42,107,160	$ 49,033,028

The accompanying notes are an integral part of these consolidated financial statements.

NEW SCHOOLS FUND DBA NEWSCHOOLS VENTURE FUND
Consolidated Statement of Activities
For the Year Ended December 31, 2014
(With Comparative Totals for the Year Ended December 31, 2013)

	2014			2013
	Unrestricted	Temporarily Restricted	Total	Total
Revenue, gains, and other support				
Contributions	$ 4,268,127	$ 19,365,067	$ 23,633,194	$ 30,023,025
Investment income	263,538	-	263,538	3,274
Mission related investments income	150,000	-	150,000	115,334
Other income	624,785	-	624,785	828,400
Gifts in-kind	123,758	-	123,758	110,463
Net assets released from restrictions	26,181,042	(26,181,042)	-	-
Total revenue, gains and other support	31,611,250	(6,815,975)	24,795,275	31,080,496
Expenses				
Program services				
Investing				
Grants	20,756,885	-	20,756,885	14,840,300
Venture building	5,882,080	-	5,882,080	5,624,824
Loss on disposal of mission related investment	750,000	-	750,000	-
	27,388,965	-	27,388,965	20,465,124
Field building	2,136,572	-	2,136,572	2,330,431
Total program services	29,525,537	-	29,525,537	22,795,555
Supporting services	3,216,479	-	3,216,479	1,977,837
Total expenses	32,742,016	-	32,742,016	24,773,392
Increase (decrease) in Net assets	(1,130,766)	(6,815,975)	(7,946,741)	6,307,104
Net assets - beginning of year	26,539,621	19,360,402	45,900,023	39,592,919
Net assets - end of year	$ 25,408,855	$ 12,544,427	$ 37,953,282	$ 45,900,023

The accompanying notes are an integral part of these consolidated financial statements.

NEW SCHOOLS FUND DBA NEWSCHOOLS VENTURE FUND

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2014

(With Comparative Totals for the Year Ended December 31, 2013)

	2014	2013
Cash flows from operating activities		
Increase (decrease) in net assets	$ (7,946,741)	$ 6,307,104
Adjustments to reconcile decrease in net assets to net cash (used) provided by operating activities		
Depreciation and amortization	61,477	53,532
Net realized and unrealized loss on investments	40,308	46,843
Accrued interest on mission related investments	(134,279)	(115,334)
Net realized loss on mission related investments	669,759	-
Changes in operating assets and liabilities		
Contributions receivable	4,208	(4,424,611)
Investment in transit	-	53,239
Other receivable	(25,757)	31,840
Interest in net assets of support organization	(236)	(303)
Other assets	82,603	(87,228)
Accounts payable	(122,844)	9,930
Grants payable	1,155,195	(5,062)
Accrued compensation	(61,238)	488,381
Deferred rent	49,760	-
Net cash (used) provided by operating activities	(6,227,785)	2,358,331
Cash flows from investing activities		
Purchases of property and equipment	(72,525)	(70,768)
Purchases of investments	(15,882,219)	(30,477,927)
Proceeds from sale/maturity of investments	22,670,912	27,816,445
Proceeds from collection on note receivable - mission related investments	42,842	79,828
Proceeds from sale of intangible - mission related investments	1,750,000	-
Purchases of mission related investments	(3,225,000)	(3,173,737)
Net cash provided (used) by investing activities	5,284,010	(5,826,159)
Net increase in cash and cash equivalents	(943,775)	(3,467,828)
Cash and cash equivalents, beginning of year	6,646,882	10,114,710
Cash and cash equivalents, end of year	$ 5,703,107	$ 6,646,882

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Nature of Operations

New Schools Fund dba NewSchools Venture Fund (NewSchools) was founded in 1998 under the laws of the State of California. NewSchools' mission is to improve public education by identifying and supporting the most promising education ventures in the country, and creating a nationwide network of education entrepreneurs committed to closing the achievement gap. NewSchools provides grants and loans to not-for-profit entities as well as investments in and loans to some for-profit businesses that are improving public education. NewSchools also provides management assistance to those ventures and builds the field of education reform-oriented entrepreneurs by organizing events and knowledge-sharing opportunities. NewSchools is supported through donor contributions.

New Schools Fund Supporting Organization, Inc. (Support Organization) was established to support, exclusively, the operation of NewSchools. The members of the board of the Support Organization are the members of the Board of Directors of NewSchools. The financials of the Support Organization are consolidated with the financial statements of NewSchools presented herein.

2. Summary of Significant Accounting Policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles and reflect the consolidated financial statements of NewSchools and the Support Organization (collectively, the Organization). All material intercompany transactions and balances have been eliminated.

Basis of presentation

The consolidated financial statements are reported according to the existence or absence of donor-imposed restrictions. Accordingly, balances and transactions are reported in the following classes of net assets:

- Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization does not have any permanently restricted net assets as of December 31, 2014.

- Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor-stipulated time restriction ends or the Organization satisfies a purpose restriction, the Organization reclassifies temporarily restricted net assets to unrestricted net assets and reports such in the consolidated statement of activities as net assets released from restrictions.

2. Summary of Significant Accounting Policies (continued)

Basis of presentation (continued)

At December 31, 2014, temporarily restricted net assets, including contributions receivable, were restricted for program purpose and time purposes of approximately $11,069,426 and $1,475,001, respectively. Program restrictions include both project based and geographic restrictions. Certain donors require unexpended funds to be held in interest bearing accounts. Releases of restriction for the year ended December 31, 2014 include $24,594,870 of program restrictions met and $1,586,172 of time restrictions met.

- Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. The Organization reports as reclassifications between the applicable classes of net assets expirations of temporary restrictions in net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed).

Contributions

The Organization recognizes contributions, including unconditional promises to give, as revenues in the year they are unconditionally promised. The Organization recognizes conditional promises only when they become unconditional, that is, when the Organization satisfies the conditions on which they depend. The Organization records contributions of assets other than cash at their estimated fair value. The Organization discounts non-current contributions receivable at an appropriate discount rate commensurate with the risks involved. The discounts on contributions receivable are computed using the prime rate of 3.25% as listed in the *Wall Street Journal.* The Organization records the amortization of the discount as additional contribution revenue over the payment period.

The Organization considers all contributions to be available for the general programs of the Organization unless the donor stipulates specific restrictions. The Organization reports contributions of cash and other assets as restricted support if the donor makes such contributions with stipulations as to the specific use of donated assets.

2. Summary of Significant Accounting Policies (continued)

Contributed services

The Organization records revenue for voluntary donations of services when those services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. For the years ending December 31, 2014 and 2013, there were $123,758 and $110,463, respectively, in contributed services meeting the requirements for recognition in the consolidated financial statements.

Grants

Unconditional grants made by the Organization are accrued as expenses and are recognized in the year in which they are approved by the Board of Directors and final grant agreements are signed. Conditional grants are not recorded until the conditions are substantially met.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and money market accounts.

Assets of support organization

Contributions to the Support Organization are recognized as revenue of the Organization. The portion not yet received by the Organization is recorded in net assets of support organization in the consolidated statement of financial position. The Organization invests all liquid assets of the Support Organization in money market funds.

Investments

Investments in corporate bonds and certificates of deposit are reported at fair value, with realized and unrealized gains and losses interest and dividends recorded in the Consolidated Statement of Activities.

Mission related investments

Mission related investments classified as non marketable equity securities are reported at historical cost, unless it can reasonably be expected that the Organization will suffer a loss on the disposition of an investment, in which case a provision for the loss is made in the year in which the decline in value occurs.

2. Summary of Significant Accounting Policies (continued)

Fair value measurements

The Organization carries certain assets and liabilities at fair value.

The fair value is defined as the price that one would receive by selling an asset or pay to transfer a liability in an orderly transaction among market participants at the measurement date. The Organization classifies its financial assets and liabilities using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

- Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.
- Level 2 - Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

Other Financial Instruments

Financial instruments, which are included in the Organization's consolidated statement of financial position as of December 31, 2013 but not required to be measured at fair value on a recurring basis, consist of cash and cash equivalents, assets of the supporting organization, contributions receivable, other receivables and assets and accounts payable. The carrying amounts of these assets and liabilities approximate fair value.

Property and equipment

Property and equipment are stated at cost, or fair value if donated, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets in the range of three to five years. Purchases of property and equipment over $1,000 are capitalized. Renewals and betterments that extend the economic useful lives of the related assets are capitalized. The Organization expenses, as incurred, other expenditures for repairs and maintenance.

2. Summary of Significant Accounting Policies (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Tax-exempt status

The Organization has been granted tax-exempt status by the Internal Revenue Service under Internal Revenue Code (IRC) Section 501(c)(3) and California Revenue and Tax codes and accordingly, is exempt from income taxes on related business income. Contributions to the Organization are deductible for income tax purposes under IRC Section 170(b)(1)(A).

The Organization's current accounting policy is to evaluate uncertain tax positions. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the consolidated financial statements and the amount of the loss can be reasonably estimated. Management evaluated the Organization's tax positions and concluded that the Organization had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the consolidated financial statements. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements. The Organization is no longer subject to income tax examinations by Federal and State tax authorities for tax years before 2010.

Comparative totals

The consolidated financial statements include certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2013, from which summarized information was derived.

Functional expense allocations

The costs of providing various programs and activities have been summarized on a functional basis in the Consolidated Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services based on management's estimates.

Subsequent events

The Organization has evaluated subsequent events through July 22, 2015, the date these financial statements were available to be issued. See Note 12.

3. Contributions Receivable

Contributions receivable as of December 31, 2014 are as follows:

	2014
Receivables due in less than one year	$7,100,299
Receivables due in one to five years	2,286,333
Total contributions receivable	9,386,632
Less: amount representing discount for receivables due in one to five years	(143,890)
Net contributions receivable	$9,242,742

Management has deemed all receivables to be fully collectible and therefore no allowance for doubtful accounts has been provided for.

The Organization has conditional promises to give that are not recognized as assets in the consolidated statement of financial position as of December 31, 2014 as follows:

	2014
Conditional promise to give subject to matching requirements	$1,391,250
Conditional promise to give subject to completing milestones per grant agreements	3,319,510
Total conditional promises to give	$4,710,760

The funds will be paid to the Organization based on the Organization satisfying the conditions as set by the donors.

4. Investments and Fair Value Measurements

Investments as of December 31, 2014 are as follows:

Corporate Bonds	$ 319,124
Certificates of Deposit	13,816,047
	$14,135,171

Investments represent all financial assets measured at fair value on a recurring basis at December 31, 2014 and 2013. The Organization has determined that its investments are classified using level 2 valuation inputs.

The Organization has money market funds totaling $4,529,985, which are included in cash and cash equivalents on the Statement of Financial Position, and measured at fair value using Level 1 valuation inputs.

5. Property and Equipment

Property and equipment as of December 31, 2014 are as follows:

Hardware	$316,353
Software	373,957
Furniture, fixtures and equipment	204,113
Leasehold improvements	18,664
	913,087
Accumulated depreciation	(776,568)
Property and equipment, net of depreciation	$136,519

6. Mission Related Investments

The Organization has created a pool of capital used to make uncollateralized loans to nonprofit and for-profit organizations engaged in working to improve public education; and to invest in for-profit businesses with a strong potential to improve public education. Investments without readily determinable fair values are reported at historical cost and evaluated for impairment, unless it can reasonably be expected that the Organization will suffer a loss on the disposition of an investment, in which case a provision for the loss is made in the year in which the decline in value occurs.

The Organization held 28 notes at December 31, 2014, totaling $4,275,293. The average face and carrying amount of the loans is approximately $164,000 at December 31, 2014. Interest rates on the loans range from 1.15% to 8%. The loans mature at varying times between 2015 and 2018.

The Organization has equity investments in 39 entities at December 31, 2014, totaling $8,062,295. Approximately $550,000 of these investments were purchased by an unrelated Foundation subsequent to December 31, 2014 (See Note 12).

No impairments in value have been recorded for the existing loans or equity investments.

In previous years, the Organization entered into an agreement with an educational software firm (the Firm) and a charter management organization to develop a formative assessment tool, in which the Organization retained partial intellectual property rights. The Organization had invested $2,500,000 as of the previous year ended December 31, 2013. During the year ended December 31, 2014, the Organization sold the intellectual property rights to the firm for $1,750,000, and recognized a loss of $750,000 on its mission related investments in the Statement of Activities as a result of the sale.

7. Grants Payable and Commitments

Grants payable as of December 31, 2014 of $2,937,195 are scheduled to be paid in 2015.

At December 31, 2014, grant payments of $12,369,750 are contingent upon grantees meeting specific conditions in the future and have not been recorded.

8. Lease Commitments

The Organization leases offices under non-cancelable operating lease agreements through 2018 with payments ranging from approximately $5,000 to $21,000 a month. Approximate future minimum lease payments under these leases are:

Year Ended December 31,	
2015	$ 521,000
2016	394,000
2017	301,000
2018	241,000
Total	$1,457,000

Rental expense for all operating leases totaled $579,650 for the year ended December 31, 2014.

For the year ended December 31, 2014, the total amount of sub-rental revenue received was $182,888. The total amount of minimum rentals to be received in the future under non-cancelable subleases are approximately $123,000 and $30,900 in 2015 and 2016, respectively.

9. Related Party Transactions

During the years ended December 31, 2014, the Organization recognized total contribution revenue of approximately $4,300,000 from one member of the Board of Directors of the Organization. At December 31, 2014, there were contributions receivable of approximately $1,900,000 from two members of the Board of Directors of the Organization.

10. Concentrations of Risk

The Organization has defined its financial instruments which are potentially subject to risk as cash and cash equivalents and investments.

During the year ended December 31, 2014, the Organization regularly held cash deposits in excess of federally insured limits. The Organization does not believe it is exposed to any custodial credit risk on excess deposits.

10. Concentrations of Risk (continued)

The Organization received approximately $9,400,000 or 39% of its total contribution revenue from two foundations and one individual donor during the year ended December 31, 2014. No other individual donor other than board members described in Note 9 above, contributed more than 10% of total contribution revenue in 2014.

11. Retirement Plan

The Organization participates in a 401(k) Plan which allows for the Organization to make discretionary contributions of up to 4% of each employee's eligible compensation. The Organization's contribution was $71,966 for the year ended December 31, 2014.

12. Subsequent Events

On February 23, 2015, the Organization formed and is a 50% owner of NewSchools Capital, LLC (NewSchools Capital) with an unrelated third party. NewSchools Capital was established to serve as a management company for the Organization's Seed Fund Portfolio of mission related equity investments. On April 29, 2015, the Organization made a capital contribution of $250,000 to NewSchools Capital to fund initial operations. The Organizations 50% ownership interest in NewSchools Capital will be accounted for as an equity method investment in the statement of financial position in subsequent years.

On April 15, 2015, a nonprofit Foundation purchased $550,000 of mission related equity investments at cost. No gain or loss was recognized on this sale.

On April 30, 2015, the Organization entered into a lease termination agreement for its Boston, Massachusetts facility to be effective on April 30, 2015. In accordance with the termination agreement, the Organization paid a onetime termination payment of $41,998.

On June 11, 2015, the Organization entered into an agreement to transfer the net assets held for the Organization's restricted Oakland Fund to a newly formed, independent nonprofit organization as of the closing date of June 30, 2015.